



OFFICE OF THE COMPTROLLER  
CITY OF ST. LOUIS



FILE COPY

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Comptroller

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DR. KENNETH M. STONE, CPA  
Internal Audit Executive

November 17, 2010

Terrell Carter, Executive Director  
CREATE (Community Based Resources Ensuring Access to Everyone), Inc.  
3014 N. 25<sup>th</sup> St.  
St. Louis, MO 63107

RE: Sullivan Place (Project 2010-AHC12)

Dear Mr. Carter:

Enclosed is a report of our fiscal monitoring review of Pyramid Construction / CREATE, Inc. for the period January 1, 2009 through June 30, 2009. The scope of a fiscal monitoring review is less than an audit, and as such, we do not express an opinion on the financial operations of CREATE, Inc. Fieldwork was completed on August 16, 2010.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and through an agreement with the Affordable Housing Commission (AHC) to provide fiscal monitoring to all grant or loan recipients.

If you have any questions, please contact the Internal Audit Section at (314) 622-4723.

Sincerely,

Dr. Kenneth M. Stone, CPA  
Internal Audit Executive

Enclosure

cc: Angela Morton Conley, Executive Director, AHC



# CITY OF ST. LOUIS

**AFFORDABLE HOUSING COMMISSION (AHC)**

**PYRAMID CONSTRUCTION / CREATE, INC.  
SULLIVAN PLACE**

**CONTRACT #37-05G**

**FISCAL MONITORING REVIEW  
JANUARY 1, 2009 THROUGH JUNE 30, 2009**

**PROJECT #2010-AHC01**

**DATE ISSUED: NOVEMBER 17, 2010**

**Prepared by:  
The Internal Audit Section**



## OFFICE OF THE COMPTROLLER

**HONORABLE DARLENE GREEN, COMPTROLLER**

**CITY OF ST. LOUIS  
AFFORDABLE HOUSING COMMISSION (AHC)  
PYRAMID CONSTRUCTION / CREATE, INC.  
SULLIVAN PLACE  
FISCAL MONITORING REVIEW  
JULY 1, 2009 THROUGH JUNE 30, 2009**

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## INTRODUCTION

### Background

**Contract Name:** Pyramid Construction / CREATE, Inc.  
Sullivan Place Social Services for the Elderly

**Contract Number:** 37-05G

**Contract Period:** July 1, 2008 through April 30, 2009

**Contract Amount:** \$200,000

The contract is a grant agreement from the Affordable Housing Commission (AHC) that provided funding to assist in the delivery of social service programs to the residents of Sullivan Place Apartments. Sullivan Place is a non-assisted living facility targeting elderly residents in North St. Louis who meet certain income guidelines. Some of the programs offered to these residents include transportation, meal, and medical services. There are also wellness, entertainment, and educational resources available on site.

Pyramid Construction, Inc., was succeeded by CREATE, Inc., (Agency) which completed delivery of the service programs.

### Purpose

The purpose of the review was to determine the Agency's compliance with federal, state and local AHC requirements for the period January 1, 2009 through June 30, 2009 and make recommendations for improvements as considered necessary.

### Scope and Methodology

Inquiries were made regarding the Agency's internal controls relating to the contract administered by AHC. Evidence was tested supporting the reports the Agency submitted to AHC and other procedures were performed as considered necessary.

### Exit Conference

An exit conference was conducted at the Internal Audit Section on November 8, 2010. The Agency was represented at the exit conference by the Executive Director, Terrell Carter.

The Internal Audit Section was represented by the project supervisor, Auditor II Dorothy Middleton, and by Auditor-in-Charge Don Curby.

### Management's Responses

The management's responses to the observations and recommendations identified in the draft report were received from the Agency on November 12, 2010. These responses have been incorporated into this report.

## **SUMMARY OF OBSERVATIONS**

### **Conclusion**

The Agency did not fully comply with federal, state and local AHC requirements.

### **Status of Prior Observations**

The Agency did not have any previous AHC fiscal monitoring reviews.

### **Summary of Current Observations**

Recommendations were made for the following observations, which if implemented, could assist the Agency in fully complying with federal, state, and local AHC requirements.

1. Opportunity to document compliance with payroll tax requirements
2. Opportunity to improve the agency's accounting system
3. Opportunity to improve oversight of payroll procedures

## **DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES**

### **1. Opportunity To Document Compliance With Payroll Tax Requirements**

The Agency used a payroll service company (Intuit QuickBooks) for payment of payroll taxes and preparation of applicable tax returns. The Agency indicated that the payroll service company provided file copies of the quarterly federal and state payroll tax returns. It was also indicated that the Agency filed an annual return for City of St. Louis earnings tax. The Agency, however, did not have copies available of the payroll tax returns for the review period.

Maintaining documentation that applicable tax liabilities were paid is necessary to ensure compliance with Sections 11 and 18 of the contract, and sound business practices. An Agency that has a payroll service company withhold and pay payroll taxes should:

- Obtain copies and verify the accuracy and correctness of all tax deposits made and tax returns filed on behalf of the Agency. The returns should include:
  - U.S. Internal Revenue Service (IRS) Form 941 returns.
  - Missouri withholding tax returns.
  - City earnings tax returns.
- Maintain the copies on file for review as required by the taxing authorities or other authorized parties (e.g., funding sources or their representatives).

It did not appear that the Agency established a chronological file of the tax records prepared by the payroll service company. Without such a file, there was a risk that the payroll service company could have failed to properly pay the payroll taxes due without the knowledge of the Agency.

Failure to submit payroll taxes to the applicable authorities could subject the Agency to penalty and interest charges. Such charges could also jeopardize the Agency's ability to continue providing the services funded by the contract.

#### **Recommendations**

It is recommended the Agency obtain, and verify the correctness of, all tax deposits made and payroll tax returns filed on the Agency's behalf. It is further recommended that the Agency maintain copies of the documents for review in compliance with the contract and the requirements of applicable taxing authorities. At minimum, the payroll tax records should be retained for a period lasting until the latter of the following dates:

- Three (3) years from the date of the final payment made under the Agency's contract.
- Four (4) years after filing the 4<sup>th</sup> quarter IRS payroll tax return for each tax year.

## DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

### 1. Continued ... ..

#### *Management's Responses*

*We agree with the findings and suggested recommendations. Due to a reorganization and move of the organization's main office, files were misplaced and/or mislabeled, making it difficult to locate certain paperwork. The organization is in the process of going through all files in order to locate requested documents. When these documents are located, they will be provided to the Audit Section. Additionally, we are in the process of establishing a chronological file of the tax records prepared by the payroll service company to ensure timely location of files/documents in the future.*

### 2. Opportunity To Improve The Agency's Accounting System

The Agency did not maintain an adequate accounting system on a current basis in accordance with generally accepted accounting principals (GAAP), as required by Section 9 of the Agency's contract. Specifically, the Agency did not maintain a general ledger or produce interim financial statements. The only financial statements available were those accompanying the Agency's annual Internal Revenue Service Form 990, Return of Organization Exempt from Income Tax.

The Agency did maintain spreadsheet summary records of program expenditures and budgetary balances to date. Those records were submitted monthly to AHC as support for reimbursement requests. The lack of an adequate accounting system could prevent auditors from determining the accuracy and allowability of reported expenditures. This could result in disallowable costs. Also, failure to comply with provisions of the contract could result in other sanctions as determined by AHC.

The Agency's Executive Director indicated the absence of a standardized accounting system was primarily due to the necessity of organizing records after assuming his position. The Agency indicated that arrangements were in progress to have a professional accounting firm maintain an automated system and prepare monthly financial statements.

#### **Recommendations**

It is recommended the Agency proceed with plans to establish and maintain a system of accounting that is in accordance with generally accepted accounting principles. The system should include the following:

- A general ledger that assigns the results of business transactions to applicable account codes within the major classifications used to prepare financial statements.

## DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

### 2. Continued ... ..

- A clear distinction within the general ledger between accounts used to record revenues and expenditures of funds received from all sources.
- Monthly financial statements for review by the Agency's Executive Director and board of directors. At minimum, the financial statements should include:
  - A balance sheet to reflect the Agency's financial position.
  - An income statement to summarize the results of the period and year-to-date revenue and expense transactions.

#### *Management's Responses*

*We agree with the finding and recommendations. We have subsequently secured the services of a qualified accounting firm, RubinBrown, that is helping to create and maintain an adequate accounting system that conforms with generally accepted accounting principles, including a monthly general ledger and monthly financial statements, including a balance sheet and income statement.*

### 3. Opportunity To Improve Oversight Of Payroll Procedures

During tests of the Agency's controls over payroll expenditures, images were reviewed of four cancelled checks written to cover the bi-weekly salary of the Executive Director. It was noted that all of the checks were signed by the Executive Director. None of the checks contained a countersignature, initials, or other evidence of oversight by another authorized officer of the Agency's board of directors.

To provide appropriate internal control, the payroll checks for the Executive Director should be approved and signed by another officer. The Agency's policies and procedures did not include that requirement.

Having the Executive Director sign his own paycheck, without requiring a second officer's signature, resulted in the Executive Director performing incompatible duties. Consequently, there was an increased risk that a paycheck could be written and cashed for a larger amount than authorized by the contract.

#### **Recommendations**

It is recommended the Agency require the signature of an authorized officer of the board of directors to approve the paycheck of the Executive Director.



## DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

### 3. Continued ... ..

#### *Management's Responses*

*We agree with the finding and suggested recommendations and have begun to take steps to rectify this. In the future, the Executive Director will no longer be allowed to sign his/her own paychecks. Instead, we will utilize the services of Intuit Quickbooks Payroll service which will automatically debit the Executive Director's salary from a designated account and automatically deposit funds in his/her personal account, thus eliminating the need to hand write checks for this item.*